Adairs
FY19 Results Presentation
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1. RESULTS OVERVIEW

FY 2019 results

Sales growing across both channels

- Sales +9.7% to $344.4m with like for like (LFL) sales +7.2%
- Online sales +42% to $58.8m (now 17% of total sales)

Solid gross profit result

- Gross profit +6.7% to $197.1m
- Gross margin rate -110bp to 59.2% pre AASB 15 adjustments, in line with guidance
- Impacted by higher distribution costs and a weaker Australian dollar

EBIT down 2.4% / NPAT down 1.3%

- EBIT decreased to $43.4m (-$1.1m on FY18)
- Store and marketing costs well contained
- New Zealand growing and now profitable
- DC operating costs and structure under review

Higher dividend

- Final dividend of 8.0 cps (fully franked) taking total FY19 dividend to 14.5 cps (+7.4% on FY18)

Strong balance sheet

- Strong free cash flow saw net debt reduced to $8.2m
- Clean inventory position

Note: Comparative FY18 data in this presentation has been adjusted for changes in accounting standards to allow a true like for like comparison – see Appendix 4

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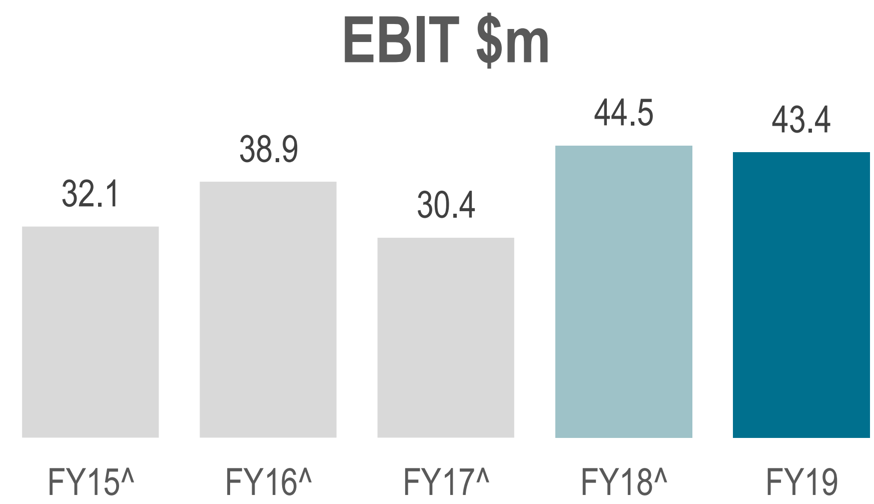
2. FINANCIAL RESULTS

Key P&L metrics

($ Million)	FY19	FY18^	% Δ
Sales	**344.4**	**314.0**	9.7%
Gross Profit	**197.1**	**184.7**	6.7%
Gross Profit %	*57.2%*	*58.8%*	
Add back AASB 15 impact	*7.1*	*5.0*	
Underlying Gross Profit % (Pre AASB 15)	*59.2%*	*60.3%*	
CODB	**146.0**	**133.3**	9.5%
CODB %	*42.4%*	*42.5%*	
EBITDA	**51.1**	**51.3**	-0.4%
EBITDA %	*14.8%*	*16.4%*	
EBIT	**43.4**	**44.5**	-2.4%
EBIT %	*12.6%*	*14.2%*	
NPAT	**29.6**	**30.0**	-1.3%
EPS	**$0.179**	**$0.181**	-1.3%



Record sales offset by higher distribution costs

- Total sales +9.7% and LFL sales growth of +7.2% led by online channel, expansion categories, Homemaker and upsized stores
- Underlying Gross Profit % fell 110bp to 59.2% due to higher distribution costs and the weaker Australian dollar (refer page 6)
- Gross Profit % improvement is a key focus moving forward

^ For comparability between the years, FY18 has been adjusted to reflect (retrospectively): (1) the impact of deferred Linen Lover revenue now recognised over the 2-year membership period, and (2) postage costs of our online sales now required to be included in cost of goods sold (previously an expense under CODB).

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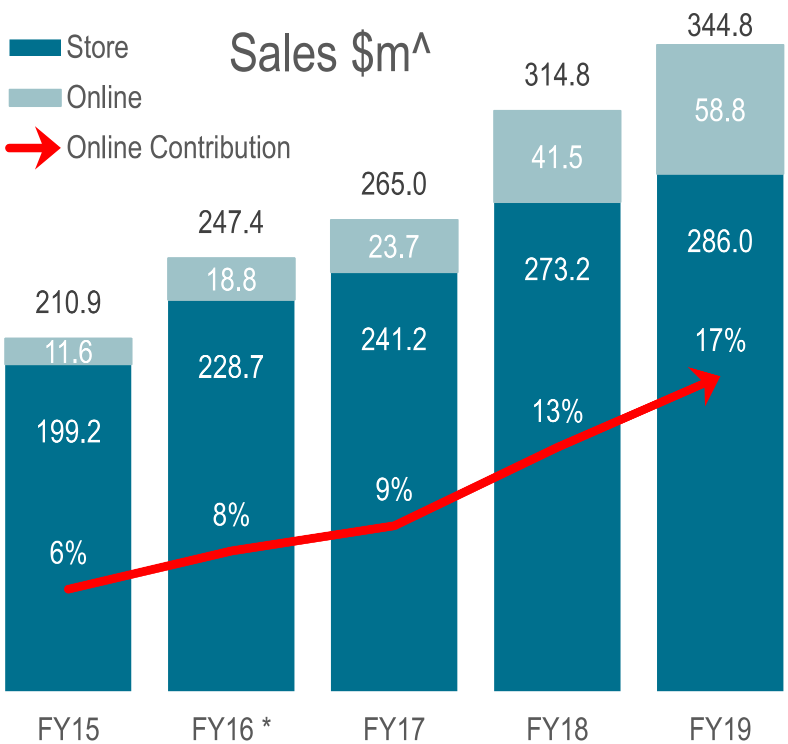


Sales growth across both channels

Total sales +9.5% to $344.8m, with LFL sales +7.2%

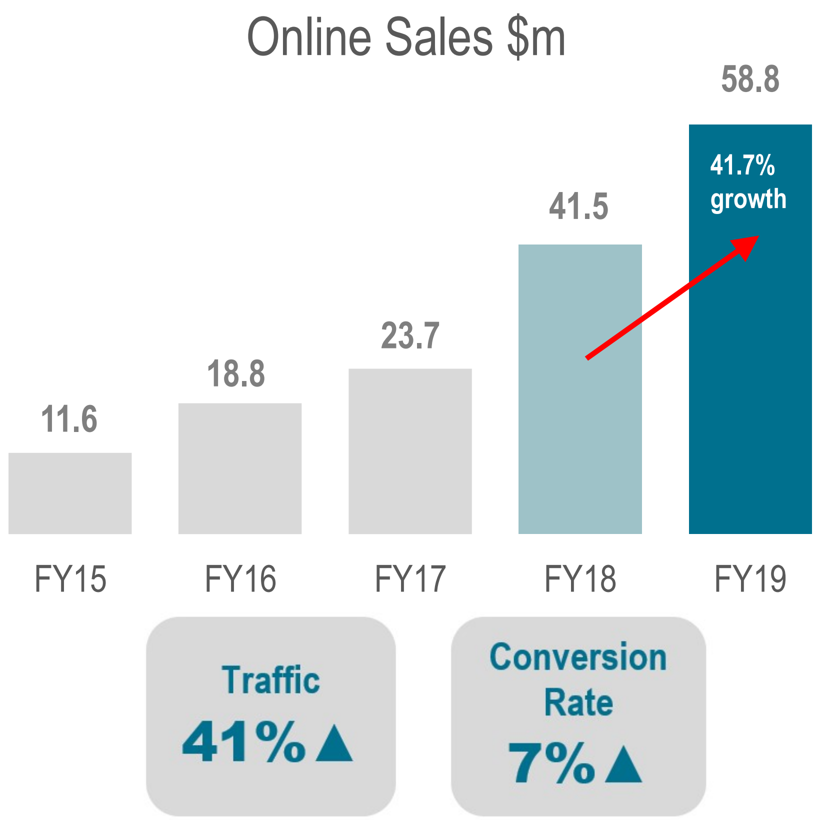
Stores: Sales +4.7% to $286m, with LFL growth of 1.5%

- Sales growth continues to be driven by performance of expansion categories
- Opened 5 stores, upsized 5 and refurbished 6
- Disciplined store portfolio management with 7 store closures (incl. 3 Myer concessions and 2 Adairs Kids stores merged into larger stores).

Online: Sales +42% to $58.8m

- Online sales now 17% of total sales
- Growth delivered by strong execution of digital strategy and our omni channel approach

*^ Sales breakdown by channel are pre AASB 15. * FY16 is proforma based on a 52-week year.*



Note: FY16 in Sales chart is proforma based on 52-week year.

Online delivers strong sales growth

- Online delivered 42% LFL sales growth and contributed 17% of total sales (FY18 13%)
- Online sales growth continues to be driven by growing social media engagement, enhancing search engine marketing, and improving the integration and alignment of Linen Lovers loyalty program with the online channel
- Combined with a strong product offering, these initiatives improved online traffic (+41%) and conversion rate (+7%)
- Earnings contribution from the online channel growing strongly. Costs are more variable to sales than stores, so less operating leverage available
- Our medium term target and planning is to deliver $100m of sales from online

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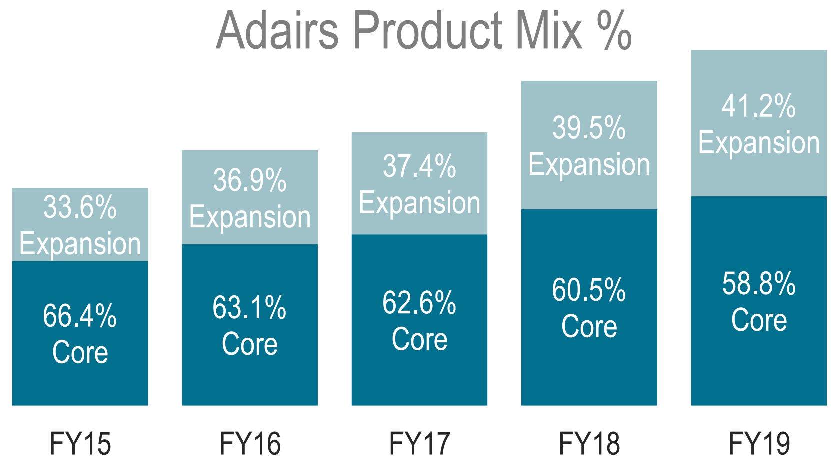
Product strategy driving LFL growth

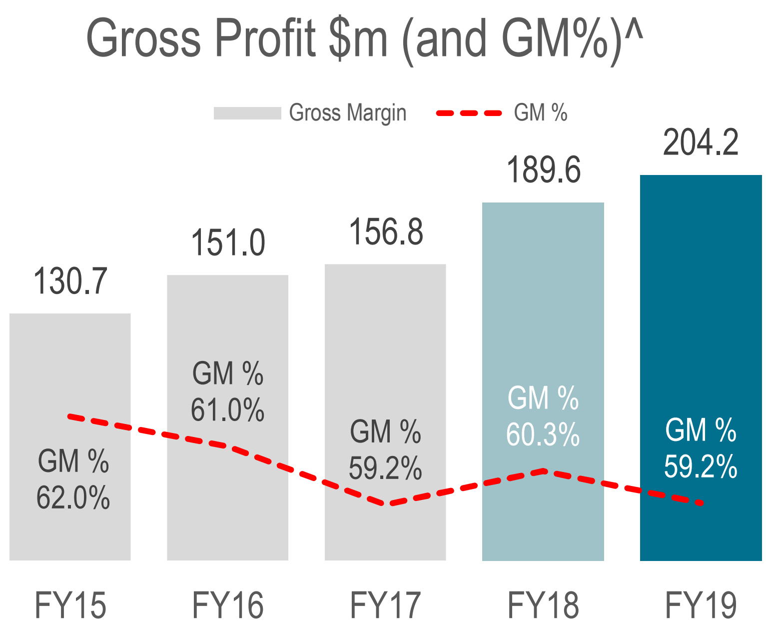
- Continued focus on range expansion saw 'expansion categories' increase to 41.2% of sales
- Growing these expansion categories drives like for like sales growth, and diversifies our business



Product strategy continues to deliver and significant upside remains:

- In most expansion categories we remain a relatively small player in fragmented markets – our scope to grow further market share is high
- Focussing on furnishing more of our customers homes allows us to grow our share of existing customers purchases rather than relying on acquiring new customers for growth

Gross Profit and Gross Margin drivers



^ *Excludes AASB 15 adjustments*

Note:
From FY19, AASB 15 requires postage costs of online sales be included in cost of goods sold. Adairs considers it more appropriate to treat these as an expense.

For improved comparability between FY19 v FY18 results, we have adjusted for the impact of AASB 15 in our analysis of FY19 Gross Profit and CODB on this and the next page.

Underlying gross profit margin fell 110 bp to 59.2%

The drivers of this decline were:

55%	A weaker AUD/USD buy rate v FY18 ▶ This will remain a headwind in FY20 however we have worked with suppliers on landed costs and reviewed price points and discount depth to improve margins in FY20
25%	A decline in "underlying trading" GM% ▶ Decline in "underlying trading" gross profit margin when measured in "constant currency" terms
20%	Higher distribution costs ▶ Increased freight and distribution due to more stores and growth outside of VIC/NSW, and an increase in sales of bulkier items ▶ Activation of overflow DC capacity due to growth

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Cost of doing business (CODB)

(% Sales)	FY19	FY18	Change
Salaries & Employee Benefits	22.7%	22.8%	-0.1%
Occupancy Expenses	12.4%	12.7%	-0.3%
Advertising Expenses	2.5%	2.4%	+0.1%
Other Expenses^	6.7%	5.8%	+0.9%
Total Comparable CODB %^	**44.3%**	**43.7%**	**+0.6%**
AASB 15 adjustment: Postage reallocation (CODB to GM) ^^	-1.9%	-1.2%	-0.7%
Total CODB %	**42.4%**	**42.5%**	**-0.1%**

^ Excludes AASB 15 adjustments

^^ Online postage costs reallocated from CODB to GM ($4.2m FY18 & $6.7m FY19) and adjustment for deferred Linen Lover membership revenue ($0.7m FY18 & $0.4m FY19)

CODB increased by $15.2m (+11%)

- Other Expenses accounted for c.30% of the increase in CODB (up $4.9m on FY18), and represented >100% of the increase in our Comparable CODB%, driven by:
  - costs to support online sales growth, including postage
  - additional DC operating costs and the use of third-party logistics providers, and
  - set-up costs of the secondary DC facilities (non-recurring)
- Given the 3.5% fair work increase on 1 July 18 salaries were well controlled as % of sales with store productivity gains offset by additional online staffing
- Occupancy cost decreased as a % of sales with reductions achieved on lease renewals
- Advertising up on FY18 with investments in digital marketing, supplemented by continued investment in catalogue and social media advertising
  - as digital becomes a larger share of business we expect marketing as a % of total sales to grow

Strong Balance Sheet supports growth

($ Million)	FY19	FY18
Cash and Cash Equivalents	16.7	12.7
Inventories	42.8	33.6
Plant and Equipment	20.9	20.9
Goodwill and Intangibles	113.5	114.2
Other Assets	16.4	13.6
Total Assets	**210.3**	**195.0**
Payables	29.7	23.9
Borrowings	24.9	25.0
Provisions	12.9	11.4
Other Liabilities	24.5	18.6
Total Liabilities	**92.0**	**78.8**
Net Assets	**118.3**	**116.2**

FY19 saw further balance sheet improvement

- Strong closing cash position of $16.7m with net debt position improving $4.0m over the year to $8.2m
- Borrowings largely unchanged with Debt facility of $25m remaining available if required
- Inventory levels are clean and rose $9.2m due to:
  - changes in timing of inventory ownership recognition of stock in transit
  - adverse FX movements increase YE carrying value
  - inventory held to support sales growth for online and in new and upsized stores
- Payables increase due to movement in inventory
- Other Liabilities increase relates to AASB 15 deferred revenue (Linen Lovers membership)
- Net Debt/EBITDA ratio of 0.16x, continues to improve over prior year (0.24x in FY18)
- All covenants met with significant headroom

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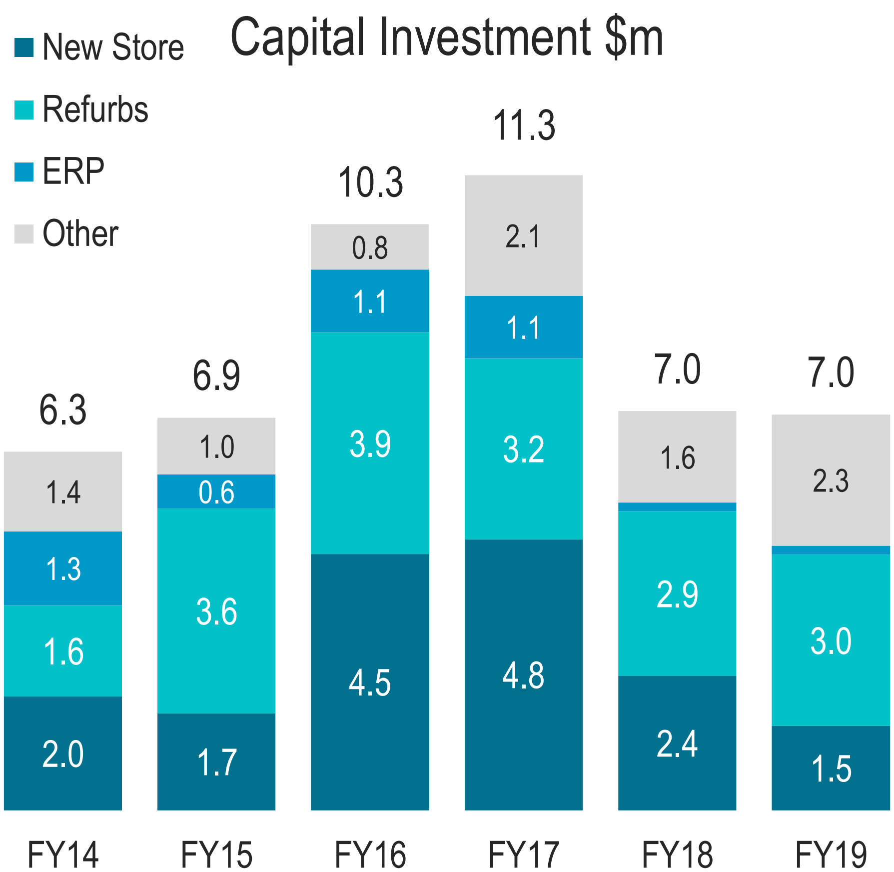

Investing for growth

- Opened 5 new stores in FY19
- 11 refurbishments completed including the upsizing of 5 stores
- Other CAPEX of $2.3m consists of purchases of fixtures for the secondary DCs and ongoing technology improvements
- Significant landlord contributions continue for new store, relocation and upsizing capex

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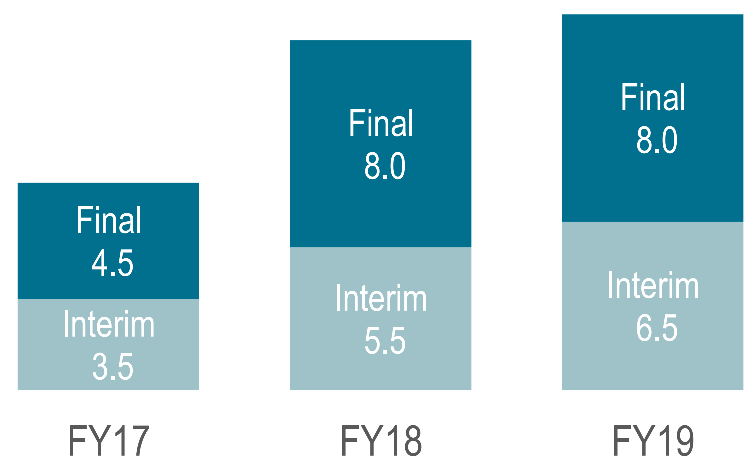
Strong free cashflow and higher FY19 dividend

($ Million)	Statutory FY19	Statutory FY18	Change
EBITDA	**51.1**	**52.1**	(1.0)
Movements in Working Capital	(2.3)	(0.2)	(2.1)
Cash Tax Paid	(12.7)	(11.4)	(1.3)
Net Capex	(7.0)	(7.1)	0.1
Free Cash Flow from Operations	**29.2**	**33.4**	(4.2)
Net Interest & Borrowing Costs	(1.2)	(1.4)	0.2
Dividends Paid	(24.1)	(16.6)	(7.5)
Reduction in Net Debt	4.0	15.4	(11.4)

- Free Cash Flow from Operations remains strong ($29.2m) but down $4.2m on FY18 due to an increased investment in inventory and the timing of tax payments
- Net debt reduced by $4.0m to $8.2m
- FY19 final fully franked dividend of 8.0 cents per share
  - Record Date 11 September 2019
  - Payment Date 25 September 2019
- Total FY19 dividends increase 7.4% on FY18

Dividends Paid / Declared (cps)



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Executed on strategy in FY19

Product, Product, Product	▶ Growth of the expansion categories drove like for like sales +7.2% ▶ Focus remains on providing differentiated on-trend product
More Inspiring Larger Stores	▶ Opened 5 new stores, refurbished 11 stores including 5 upsized stores ▶ Average store size (GLA) across the business increased by 4.5% over FY18
International Expansion	▶ New Zealand profitable and growing strongly in both channels ▶ Opportunity to open further stores
Passionate High Performing Team	▶ Ashley Gardner appointed CFO (ex David Jones, Country Road, Just Group) ▶ Added management expertise into supply chain and digital
Best in Class Omni Retail Capabilities	▶ Online sales +42%, now represents 17% of total sales ▶ Linen Lovers customers grow in number (+17%) and share of revenue (>75%)

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Agile and Efficient Supply Chain	▶ Unlock value by optimising our supply chain's capacity, productivity and efficiency ▶ Will see consolidation of multiple DCs into a single DC (operational by FY22)

Agile and efficient supply chain – our 6th strategic pillar

- In FY19 we exceeded capacity in our primary DC which materially increased our operating costs and this, combined with the weaker Australian dollar, offset the benefits of our sales growth
- The restructure of our supply chain is underway and a new facility is expected to be operational by FY22
- The new facility and supply chain operating model will provide us with the platform to support our continued growth in stores as well as online, where we have a medium-term online sales target of $100m
- In the meantime we:
  - have made further investment in our supply chain leadership
  - do not expect a repeat of the costs associated with activating incremental DC capacity incurred in FY19
  - have identified interim initiatives which will improve our capabilities and productivity within the existing facilities to both lower our cost to serve and improve our customer experience

3. COMPANY OUTLOOK

FY20 Outlook

Pre AASB 16 impact	FY20 Guidance
Year End Stores	169 – 171
Sales ($m)	360 – 375
EBIT ($m)	43 – 46
Capital Investment ($m)	8 - 10

Trading Update

- Our first 7 weeks of trade has delivered LFL sales growth of +4.8% across the business with online remaining strong (+26.9%)
- Underlying trading GM is ahead of FY19

AASB 16 (Lease Standard)

- AASB 16 comes into effect in FY20.
- No economic impact on the Group, its cashflows, debt covenants or net assets. However, whilst EBIT/NPAT will not be materially affected, the financial statements will change (see Appendix 5)

Sales

- Top line revenue growth to remain strong with LFL growth underpinned by continued growth in both stores and online
- We expect to open 4-6 net new stores (incl. NZ) during FY20

Gross Margin

- GM% is a focus area to offset further AUD weakness in FY20
- We currently have hedging in place for 73% of expected USD purchases in 1H20 and 37% for 2H20 (overall 51% for FY20 at an average rate of $0.715)

EBIT

- Expect modest EBIT growth on FY19 reflecting additional investment in our team to underpin growth initiatives, and better management of supply chain costs and underlying GM %

Capital Investment

- Includes new and refurbished stores, ongoing investments in digital (website upgrade) and additional spend to support the interim DC's whilst the long-term supply chain plan is finalised
- We expect the majority of our new DC capex to be in FY21

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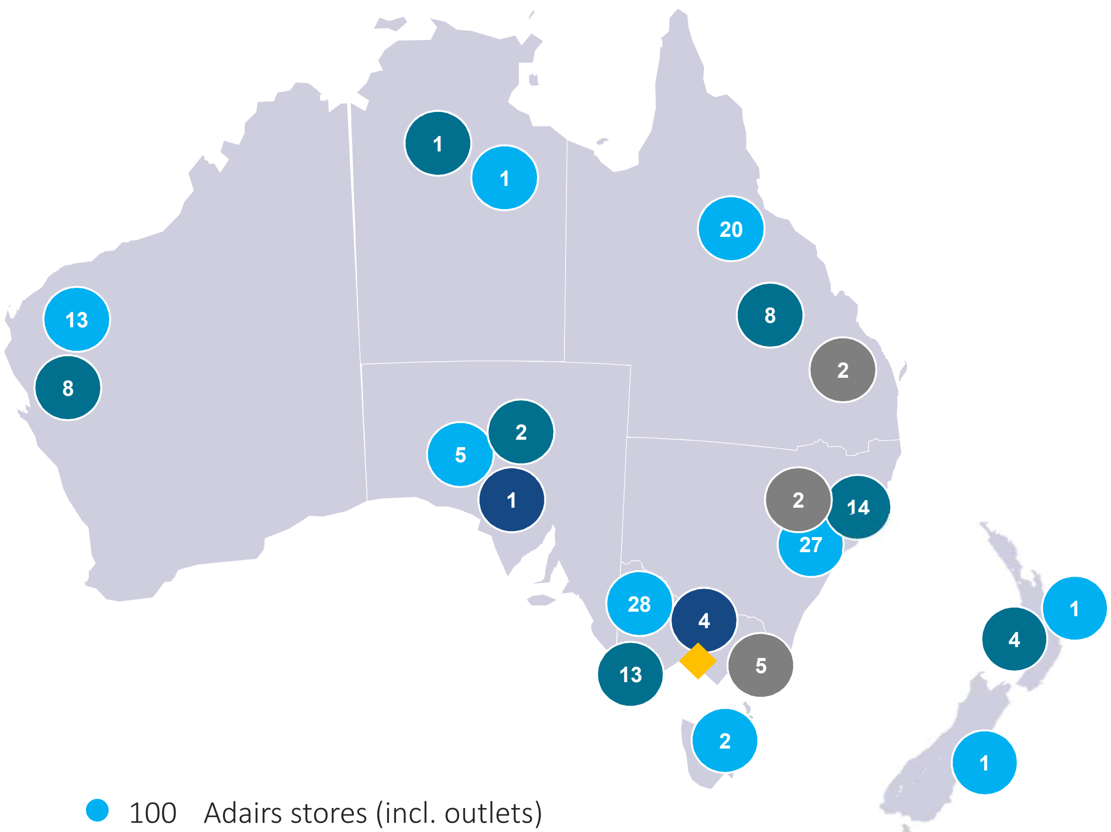
QUESTIONS?

APPENDICES

1. Store footprint
2. Sales LFL history
3. Statutory profit to EBITA/EBIT reconciliation
4. FY18 Statutory to Pro-forma reconciliation
5. AASB 16 (Lease Standard) explained
6. Inventory Bridge FY18 to FY19
7. GM% Bridge FY18 to FY19

Appendix 1 – Store footprint

Total Stores: 165 (FY18: 167)



- 100 Adairs stores (incl. outlets)
- 51 Homemaker stores
- 9 Adairs Kids
- 5 UHR
- DC and HQ

New Stores (5)

Adairs – Midland Gate, Coomera, Perth DFO

Homemaker – Cannington, Noosa

Refurbished Stores (6)

Adairs – Carousel, Townsville, The Glen, Moorabbin Outlet, Kids Essendon

Homemaker – Essendon

Upsized/Refurbished Stores (5)

Adairs – Maroochydore, Rockhampton, Highpoint, Mildura

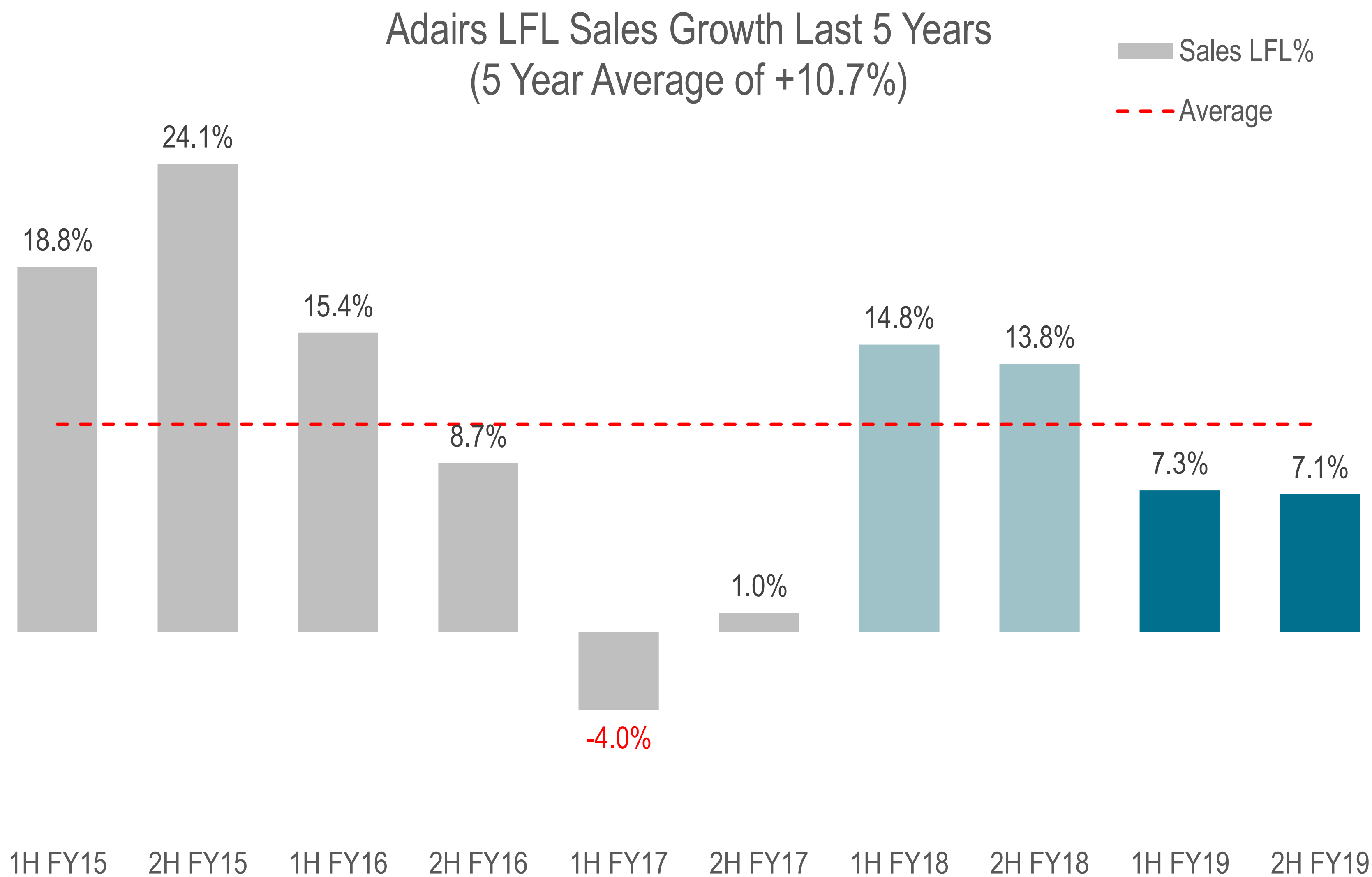
Homemaker –Belrose

Closed Stores (7)

Adairs - Myer Sydney, Myer Geelong, Myer Highpoint, Northland, Mt Ommaney

Adairs Kids - Belrose (merged Adairs Belrose), Highpoint (merged Adairs Highpoint)

Appendix 2 – Sales LFL history



Appendix 3 – Statutory profit to EBITA/EBIT reconciliation

($ million)	FY19	FY18^
Profit after Income Tax	**29.6**	**30.6**
AASB 15 Revenue adjustment	-	(0.5)
Statutory Profit After Income Tax	**29.6**	**30.0**
Add back:	-	-
Finance Expenses	1.2	1.5
Interest Income	(0.1)	(0.0)
Income tax expense	12.6	13.0
EBIT	**43.4**	**44.5**
Depreciation	7.7	6.8
EBITDA	**51.1**	**51.3**

^ Proforma adjusted for AASB 15 to reflect (1) the impact of deferred Linen Lover revenue now recognised over the 2-year membership period, and (2) postage costs of our online sales are now required to be included in our cost of goods sold, and therefore gross margin. See Appendix 4 for FY18 breakdown.

Appendix 4 – FY18 Statutory to Pro-forma reconciliation

($ Million)	FY18 Statutory	FY18 Adjustments^ 1	2	FY18 Pro forma	FY19 Statutory	$ Δ	% Δ
Sales	**314.8**	(0.7)	-	**314.1**	**344.4**	**30.3**	**9.6%**
Gross Profit	**189.6**	(0.7)	(4.2)	**184.7**	**197.1**	**12.4**	**6.7%**
Gross Profit %	*60.3%*			*58.8%*	*57.2%*		*-1.6%*
CODB	**137.6**	-	(4.2)	**133.4**	**146.0**	**(12.6)**	**-9.4%**
CODB %	*43.7%*			*42.5%*	*42.4%*		*-0.1%*
EBITDA	**52.0**	(0.7)	-	**51.3**	**51.1**	**(0.2)**	**-0.4%**
EBITDA %	*16.5%*			*16.3%*	*14.8%*		*-1.5%*
EBIT	**45.3**	(0.7)	-	**44.6**	**43.4**	**(1.2)**	**-2.7%**
EBIT %	*14.4%*			*14.2%*	*12.6%*		*-1.6%*
NPAT	**30.6**	(0.5)	-	**30.1**	**29.6**	**(0.5)**	**-1.7%**
NPAT %	*9.7%*			*9.6%*	*8.6%*		*-1.0%*
EPS (cents)	**18.4**			**18.1**	**17.9**	**(0.2)**	**-1.3%**

^ For improved comparability between FY19 v FY18 results, we have adjusted FY18 for the impact of AASB 15 which was implemented for the first time in FY19. These AASB 15 adjustments reflect (1) the impact of deferred Linen Lover revenue now recognised over the 2-year membership period, and (2) postage costs of our online sales are now required to be included in our cost of goods sold, and therefore gross margin.

Note: Some numbers may not add precisely due to rounding

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Appendix 5 – AASB 16 (Lease Standard) explained

Current treatment

- Finance leases are recorded on balance sheet and lease expenses included below EBITDA, within financing cost and amortization / depreciation. Operational leases are 'off balance sheet and the lease expenses are included in operating expenses within EBITDA

Next year (FY20)

- AASB 16 requires the on balance sheet recognition of all leases (other than short-term and low value leases, at lessee's election)
- Retailers likely more affected than any other sector (typically small balance sheets but long-term leases = disproportionately large impact)

Expected impacts include:

- EBITDA increases materially as operating lease expenses are replaced by depreciation/finance costs, but EBIT and NPAT are expected to be materially unchanged
- Cash Flow Statement affected as payments split between repayment of the principal amount (Investment Cash Flows), and interest expenses (Financing Cash Flows). No impact to Net Cashflow.
- Near-term EPS dilutes modestly as more lease expenses recognised in the early periods of a lease and less later (v straight-line under old std)
- Re-assessment by investors of key performance indicators

Adairs is currently assessing the likely impact of AASB 16 on its financial statements and will update the market in due course

Metric	Expected Proforma Impact v Current Presentation
Asset Turnover	Decrease
Interest Cover	Varies
EBITDA	Increase significantly
EBIT / NPAT	Materially unchanged
EPS	Materially unchanged
Operating Cash Flow	Increase
Financing Cash Flow	Decrease
Net Cash Flow	Unchanged
ROCE	Varies
Gross Margin	Unchanged
Return on Gross Assets	Decrease
Return on Equity	Materially unchanged
Bank Debt to Equity Ratio	Materially unchanged
Net Assets	Materially unchanged

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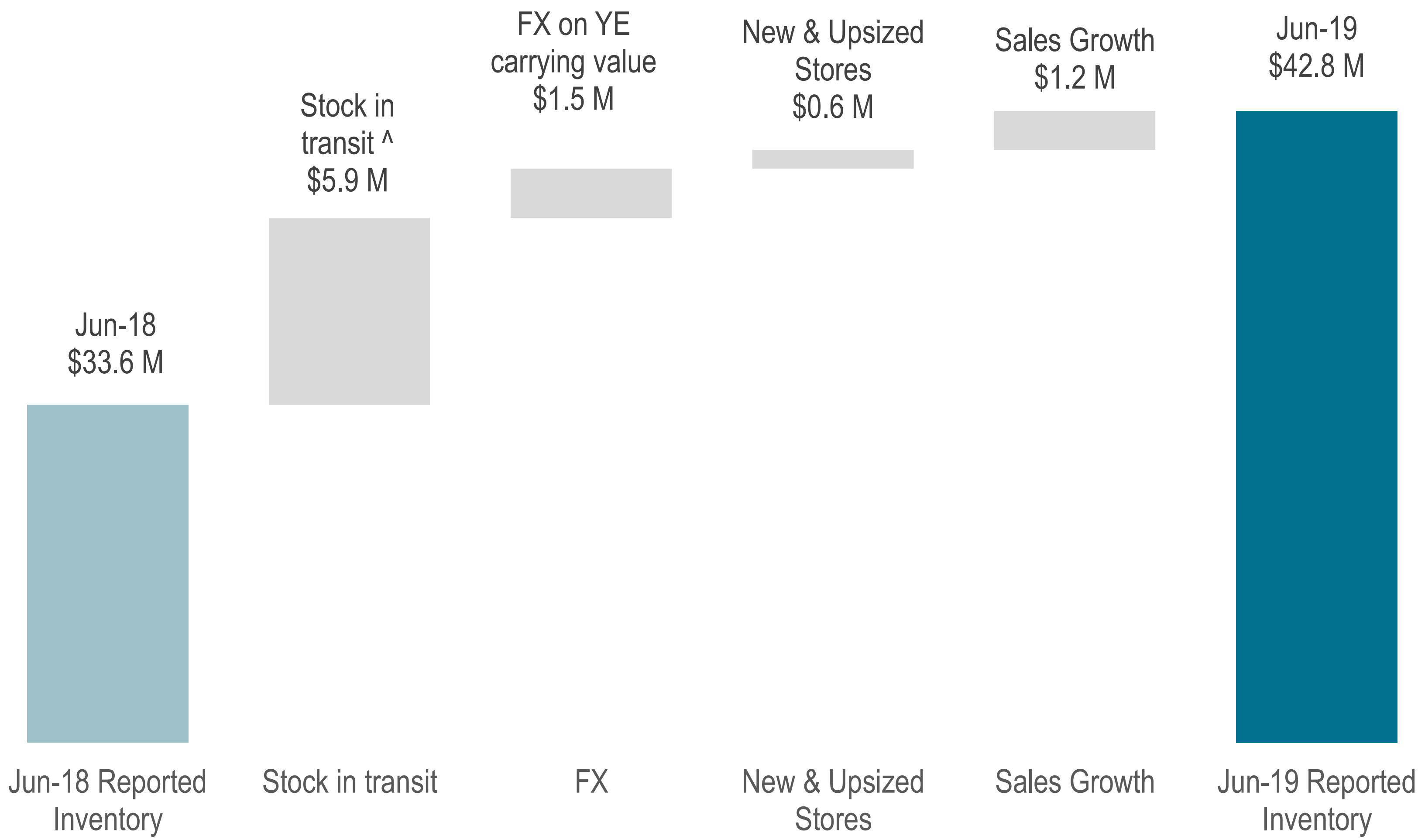
Appendix 6 – Inventory Bridge FY18 to FY19 ($m)



Notes:
^ Stock in transit adjustment relates to a timing change of inventory ownership in FY19. The net effect of this change is we recognize ownership of inventory earlier in its sourcing process and this is matched by earlier recognition of the liability to pay for this inventory (i.e. increasing trade payables). This change does not impact earnings, net working capital, cash flow, net asset or net debt. Note: Non statutory numbers presented in this chart are based on management estimates

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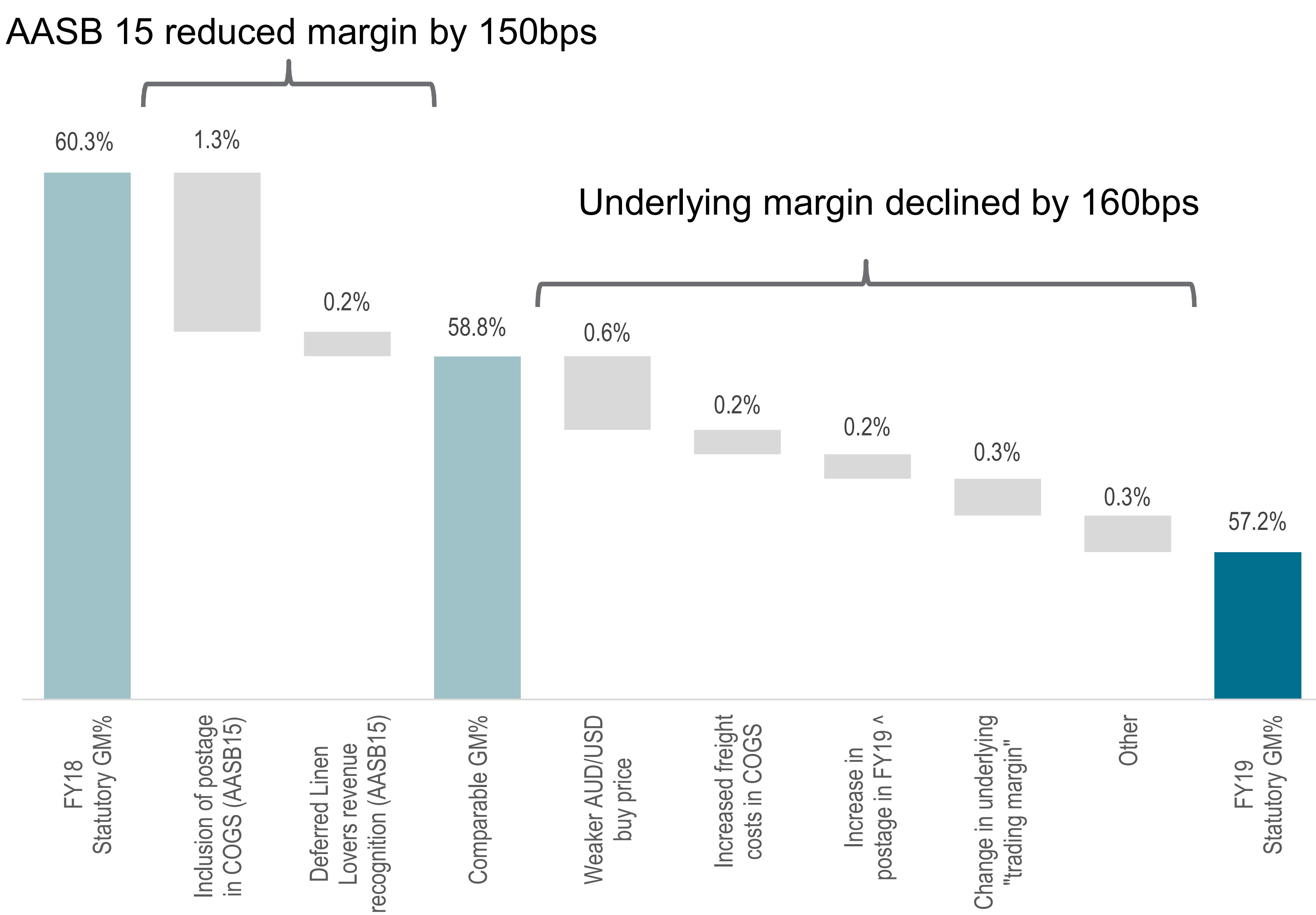
Appendix 7 – GM% Bridge FY18 to FY19



^ Management estimate

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Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.

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